

# Senate Budget & Fiscal Review

## *Senator Wesley Chesbro, Chair*



Subcommittee No. 3  
on  
Health, Human Services, Labor, and Veterans Affairs

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Senator Deborah Ortiz

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Room 4203  
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5180	Department of Social Services	1

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## 5180 DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services administers various programs designed to enable low-income aged, blind and disabled individuals to live independently and healthily, and to assist low-income families with children in attaining self-sufficiency by transitioning from welfare to work. The programs include CalWORKs, California Assistance Program for Immigrants, California Veterans Cash Benefit, In-Home Supportive Services and Supplemental Security Income/State Supplementary Payment. These programs serve approximately 2.8 million persons each year. The Governor's Budget provides \$15.1 billion in combined federal, state and county funds to support these programs.

<b>Summary of Expenditures</b>				
(dollars in thousands)	2002-03	2003-04	\$ Change	% Change
<b>Program</b>				
CalWORKs	5,614,994	4,803,693	(811,301)	-14.4
CAPI	102,218	95,311	(6,907)	-6.7
California Veterans Cash Benefit	4,133	3,340	(793)	-19.2
In-Home Supportive Services	2,629,046	3,152,781	523,735	19.9
SSI/SSP	7,536,525	7,026,165	(510,360)	-6.8
<b>Total Program Expenditures</b>	<b>\$15,886,916</b>	<b>\$15,081,290</b>	<b>-\$805,626</b>	<b>-5.1</b>
<b>Fund Source</b>				
State funds	6,112,470	3,891,652	(2,220,818)	-36.3
Federal funds	8,022,077	7,307,560	(714,517)	-8.9
County funds	186,992	905,730	718,738	384.4
Reimbursements	1,565,377	2,976,348	1,410,971	90.1
<b>Total</b>	<b>\$15,886,916</b>	<b>\$15,081,290</b>	<b>-\$805,626</b>	<b>-5.1</b>

### **I. California Work Opportunity and Responsibility to Kids (CalWORKs)**

**Background:** The California Work Opportunity and Work Responsibility to Kids (CalWORKs) program implements in California the Temporary Aid to Needy Families (TANF). TANF, the federal welfare reform law of 1996, ended the federal welfare entitlement, introduced work participation requirements, provided services designed to support employment, and gave states block grant funding and program flexibility. CalWORKs, California's TANF program, became operational January 1, 1998.

The CalWORKs program provides eligible low-income families monthly cash benefits and a range of services, including employment services, childcare, and substance abuse treatment and mental health services, designed to support employment and assist families in moving to self-sufficiency within time limits imposed by federal and state law. It requires participants to meet work participation requirements as a condition of receiving aid and sets a 60-month lifetime limit on aid for adults in the program, unless they meet specified exemption criteria. CalWORKs operates under guidelines set at the federal and state levels.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. Counties are provided a block grant and given substantial flexibility to design and carry out the program within the state and federal program guidelines. Counties develop employment preparation and family support programs that reflect local conditions, including labor market information and availability of services for low-income families. County staff determine eligibility for the program, provide case management for recipients, including the development of welfare-to-work plans and referrals for services such as mental health and substance abuse treatment, domestic violence services, learning disability screenings, training, child care, housing assistance, and transportation. While state law establishes eligibility requirements, counties are given considerable flexibility to design welfare-to-work services.

The CalWORKs program has transitioned 450,000 families, over 46 percent of its 1994-95 caseload off public assistance. Families that have transitioned off welfare tend to face fewer barriers to employment than those that remain on the program. Former welfare recipients tend to be younger, to have smaller families and are more likely to speak English as their primary language than current welfare recipients. Most former recipients are employed in the service industry. Their average annual earnings are \$15,000 and their incomes appear to be increasing modestly over time.

Over 50 percent of current CalWORKs recipients are employed yet they remain eligible for the program as their incomes are low. Families currently on CalWORKs tend to face multiple barriers to employment, including caring for a disabled child, speaking a primary language other than English, and having a limited educational attainment. A growing portion of the CalWORKs caseload is comprised of child-only cases.

CalWORKs has successfully transitioned most of its 1994-95 caseload into employment. CalWORKs is now working to transition families with multiple barriers to employment off public assistance. It is focusing on these challenging cases at the same time that the state faces a significant economic slowdown and rises in the unemployment rate. Additionally, the program faces the prospect of significant federal law changes as Congress is expected to reauthorize welfare reform this year.

Federal TANF law expired in 2002. Congress enacted a one-year extension and is currently considering multiple reauthorization proposals. Congress may increase work participation requirements, reduce the number of allowable work activities and establish special programs to encourage family building. Congress may also reduce the amount of TANF block grant funds available to states. These impending federal law changes may significantly affect CalWORKs.

CalWORKs is funded through a federal TANF block grant amount of \$3.7 billion. This amount must be matched with a state share (MOE) of \$2.9 billion. The state share is based on historic spending on welfare in 1994, with downward adjustments if certain work participation goals are achieved.

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The Governor's Budget provides \$5.6 billion to fund for the CalWORKs program in the budget year. This constitutes a \$811 million, or 14 percent decrease in CalWORKs expenditures from the current year. The budget reduces general fund expenditures on CalWORKs by \$500 million or by 24 percent.

#### **A. CalWORKs caseload**

##### **(1) Overall caseload**

**Background:** CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs maximum aid payment, having less than \$2000 in resources, and having a car valued at \$4,650 or less. The average family of three must have a monthly income below \$949 or 75 percent of the federal poverty level to be eligible for CalWORKs. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week to remain eligible for benefits.

The CalWORKs program is in its sixth year of operation and enjoys a relatively stable caseload. The program has successfully transitioned 46 percent of its 1994-95 AFDC caseload off public assistance. CalWORKs is now focusing efforts on serving parents with multiple barriers to employment and adapting to a growing proportion of child only cases.

**Governor's Budget:** After years of decline, the Department of Social Services **estimates that CalWORKs caseload will increase by 1.9 percent in 2002-2003 and .8 percent in 2003-2004.** The budget assumes that the average monthly caseload will be 517,472.

**The Legislative Analyst's review concludes that the Governor's Budget significantly overestimates CalWORKs caseload.** The Analyst estimates that CalWORKs caseload costs will be approximately \$250 million lower in 2002-03 and \$100 million less in 2003-04, for a total of \$350 million (federal TANF funds) over the two-year period.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services and the Legislative Analyst to answer the following questions:

1. Briefly discuss your caseload estimate
  2. How does your estimated caseload compare to recent actual caseload data?
  3. What is the effect of rising unemployment on the ability of welfare recipients to obtain employment? What is the resulting effect of unemployment on caseload?
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**(2) 60-month time limits**

**Background:** TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria, such as being a victim of domestic violence, being disabled or being over 60 years of age. Upon reaching their time limit, parents are discontinued from aid. Most families continue to receive a safety net grant, which excludes the adult from the grant unit.

Parents began reaching their TANF time limit in December of 2001. Since CalWORKs was implemented 13 months after California began receiving TANF funds, parents began reaching their CalWORKs time limit in January of 2003. Initial estimates of the number of parents who would reach their time limit in the current year exceeded 100,000. Recent estimates project that fewer parents will reach their time limit as they choose to leave the program prior to being discontinued, transfer to different programs (SSI) or are exempted from the requirements.

**Governor's Budget:** The budget estimates that in the current year and budget year **69,200 and 47,100 cases will reach their TANF time limit and 56,700 and 100,600 parents will reach their CalWORKs time limit.** The budget assumes \$221.3 million in savings for reduced CalWORKs assistance payments as a result of parents reaching their CalWORKs time limit.

The Department of Social Services is currently working with county welfare departments to re-examine the estimated number of parents who will reach their time limits in the current year and the budget year. County data suggests that the Governor's Budget significantly overestimates the number of parents who will reach their lifetime limit.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss your estimate of the number of parents who will reach their lifetime limit in the current and budget years.
2. How does the budget estimate compare to the analysis you have been conducting in partnership with counties? How does it compare to actual caseload data?
3. How does your new analysis affect the Governor's Budget CalWORKS caseload estimate?

The Subcommittee has requested that the Legislative Analyst answer the following questions:

1. Briefly discuss your estimate of the number of people who will reach their lifetime limit in the current and budget years.
  2. How does your estimate compare to recent actual caseload data?
  3. What is the effect of a lower amount of parents reaching their time limits on your over budgeting of caseload?
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**(3) Prospective Budgeting**

**Background:** California is one of only eight states that requires CalWORKs and food stamps recipients to report on a monthly basis changes in their income and eligibility. The state and the federal government permitted counties to require quarterly reporting from beneficiaries. However, few counties exercised this option.

State and federal officials believe that monthly reporting greatly contributes to California's high food stamps error rate. Monthly reports of income and employment require that counties process more than 700,000 pieces of paper each month, even if most of them include no reported changes. An error is recorded not only if the information is wrong or fraudulent, but also if the monthly report is not processed on a timely basis. In addition to resulting in significant workload to counties, monthly reports deter eligible people from accessing services.

Assembly Bill 444, Chapter 1022 of the Statutes of 2002 required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. The implementation of prospective budgeting is expected to reduce California's food stamps error rate, result in significant administrative savings and lead to modest increases in caseload.

The Department of Social Services has been working with stakeholders and the federal government to develop the new reporting system and obtain the necessary approvals to implement prospective budgeting. Due to delays in the federal approval of the proposed methodology, implementation of prospective budgeting has been delayed. The Governor's Budget assumes that the new system will be in place by September 2003.

**Governor's Budget:** The budget estimates that prospective budgeting will result in county fund savings of \$9.2 million for food stamps administration and \$56.3 million TANF/MOE savings for CalWORKs administration offset by a \$113 million TANF/MOE increase for grant payments.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the status of development and implementation of the new prospective budgeting system.
2. What is the estimated caseload impact of the new system?

**B. Grants Levels**

**Background:** CalWORKs provides monthly cash assistance to eligible children and their parents or caretaker relatives. A family's grant depends on its size, available income and resources. Grants also depend on the cost of living of the area in which the family resides.

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The Department of Social Services, pursuant to state law, develops a CalWORKs grant schedule which sets standards based on family size for the two regions of the state. The current maximum grant for a family of 3 on CalWORKs is \$679 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is \$11,760 or 77 percent of the federal poverty level.

Current law provides an annual cost of living adjustment of CalWORKs grants effective October 1<sup>st</sup>. The cost of living adjustment of CalWORKs grants is based on the California Necessities index. Last year's budget delayed provision of the 2002 CalWORKs COLA until June 1<sup>st</sup>. Under current law, the maximum aid payment for a family of 3 will increase to \$729 in October 2003.

**Governor's Budget:** The budget proposes (1) to suspend CalWORKs cost of living adjustments for the current year and the budget year and (2) to reduce CalWORKs grants by 6.2 percent, for savings of \$487.6 million (\$80 general fund).

The following chart illustrates the effect of the Governor's proposals on CalWORKs grant levels:

	January 2003	June 2003	July 2003	October 2003
CalWORKs Grant				
Current Law	\$679	\$704	\$704	\$729
Governor's Budget	\$679	\$679	\$637	\$637
Change from Current Law	\$0	-\$25	-\$67	-\$92
Change from Current Grant			-\$42	

**(1) CalWORKs cost of living adjustment suspension**

**Background:** Current law provides an annual cost of living adjustment for CalWORKs grants that is based on the California Necessities Index. The scheduled cost of living adjustments will increase the maximum CalWORKs grant from \$679 to \$729 in the current and budget years.

**Governor's Budget:** The budget suspends the 2002-2003 and 2003-2004 cost-of-living adjustments (COLA) for the CalWORKs program to realize savings of \$252.4 million in the budget year, \$80 million of which are estimated general fund savings.

Suspension of the cost-of-living adjustment will maintain grants at their current level and will not keep pace with cost of living increases such as rising housing costs. Opponents of this reduction argue that this proposal will result in significant hardship to low-income families without resulting in general fund savings.

**(2) CalWORKs grant reduction**

**Background:** The current CalWORKs grant schedule provides that the maximum grant for a family of 3 on CalWORKs is \$679 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is \$11,760 or 77 percent of the federal poverty level.

**Governor's Budget:** The budget reduces the maximum aid payment under CalWORKs by approximately 6.2 percent to \$637 for a family of 3. This proposal generates non-general fund savings of \$235.2 million.

The budget reduces CalWORKs grants for an average family of 3 by \$42 per month. The reduction will be partially offset by a \$19 increase in monthly food stamps benefits. An average family of 3 with no earned income will experience a decrease in their income from 77 to 75 percent of the federal poverty level or from \$980 to \$957 per month.

CalWORKs recipients expend their grants to pay for rent, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a one-bedroom apartment in California average \$657 per month and range from \$406 in Modoc to \$1535 in San Mateo, \$764 in Los Angeles, \$564 in Riverside, \$934 in Orange and \$972 in Santa Cruz. **Since 1990 rent prices have increased by 36 percent and the purchasing power of a CalWORKs grant has declined by 26.1 percent.**

In addition to reducing the resources of families on CalWORKs, **the proposed grant reduction will make some families ineligible for the program.** These families may lose their grants and lose supportive services.

**The families that become ineligible for CalWORKs as a result of the proposed grant reductions are most likely headed by adults that have been participating in welfare-to-work activities and who are actively employed.** These families are most likely receiving small grants and services to support the parent's continued employment. The budget does not estimate the number of families who will become ineligible as a result of the proposed grant reductions.

**The proposed grant reductions may lower the statewide CalWORKs work participation rates.** Families who become ineligible as a result of grant reductions are most likely working and contributing to California's work participation rates. The termination of aid to families that are working, combined with effects of working families reaching their time limit, may result in lower work participation rates. Lower work participation rates may in turn increase the federally required state match by \$187 million and may result in federal penalties. The Budget does not estimate the impact of the grant reductions on California's work participation rates.

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**Subcommittee requests and questions:** The Subcommittee has asked the Department of Social Services to answer the following questions:

1. Briefly describe the proposed CalWORKs COLA suspension and grant reduction.
2. How will these proposals affect low-income families participating in CalWORKs?
3. How many families will become ineligible for CalWORKs as a result of the proposed grant reduction?
4. How will the families that become ineligible for CalWORKs be affected by the proposed reduction? Will they lose services that support their continued employment?
5. What steps will you take to assure these families continue receiving supportive services and are able to retain their employment?
6. How will the proposed grant reduction affect California's ability to meet federal work participation requirements?

**C. CalWORKs Employment Services and Administration Funding**

**Background:** County welfare departments are responsible for the local development and implementation of CalWORKs. They receive a block grant from the state and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines. Counties develop and implement employment preparation and family support programs. County staff members determine eligibility for the program, provide case management services, develop welfare-to-work plans, and provide referrals for services such as child care, housing assistance and transportation.

California provides counties a single allocation block grant to fund CalWORKs Stage 1 childcare, employment services, transportation and program administration. Program administration funding supports eligibility determination, case management services, fraud prevention, and issuance of grants. Counties have some flexibility to move funds from one type of expenditure to another within their single allocation.

County single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the level of funding necessary to fully fund their CalWORKs program. The allocations were reviewed and adjusted to reflect actual costs in the 1998-99 and 1999-00 fiscal years. California maintained counties at their 2000-01 level in subsequent years. The Budget Act of 2002 provided a one-time \$128 million increase to the employment services component of the single allocation.

**Governor's Budget:** The budget (1) suspends county cost of doing business adjustments; (2) reduces single allocation funding due to the implementation of prospective budgeting and the impact of time limits on caseload; and (3) provides a one-time funding increase for employment services. The budget also proposes to realign a portion of CalWORKs employment services and administration.

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**(1) County Cost of Doing Business Adjustment**

The budget provides \$1.75 billion to fund the delivery of CalWORKs services, childcare and CalWORKs administration. This amount reflects a \$438 million decrease in local assistance. **The proposed compensation for county services is based on 2000-01 county costs and does not include a cost-of-doing business adjustment.**

**(2) 60-month time limits**

**Background:** TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria. Upon reaching their time limit, parents are discontinued from aid and generally become ineligible for program services. Parents began reaching their TANF time limit in December of 2001 and their CalWORKs time limit in January of 2003.

**Governor's Budget:** The budget estimates that in the current year and budget year 69,200 and 47,100 cases will reach their TANF time limit and **56,700 and 100,600 parents will reach their CalWORKs time limit.** The budget **reduces CalWORKs Services and Stage 1 childcare funding by \$342.2 million** as a result of parents reaching their CalWORKs time limit.

The Department of Social Services is currently working with county welfare departments to re-examine the estimated number of parents who will reach their time limits in the current year and the budget year. County data suggests that the Governor's Budget significantly overestimates the number of parents who will reach their lifetime limit.

Additionally, the budget's estimated savings are based on the average cost per case and may not reflect actual county practices. Counties report that parents reaching their time limits generally need less case management services than parents who remain on CalWORKs. Also, parents reaching their time limits tend to be employed and have children served by the Stage 2 child care program. Counties believe that savings due to time limits are significantly overestimated and will lead to inadequate county compensation.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the projected effect of time limits on county funding for CalWORKs services and administration.
  2. How do the budgeted savings compare to recent analysis of the number of parents who will reach lifetime limits and county service delivery practices?
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**(3) Prospective Budgeting**

**Background:** California is one of only eight states that requires CalWORKs and food stamps recipients to report on a monthly basis changes in their income and eligibility. These monthly reports of income and employment require that counties process more than 700,000 pieces of paper each month, even if most of them include no reported changes. An error is recorded not only if the information is wrong or fraudulent, but also if the monthly report is not processed on a timely basis. State and federal officials believe that California's high food stamps error rate, which has resulted in significant federal penalties, is largely due to the state's monthly reporting requirement.

Assembly Bill 444, Chapter 1022 of the Statutes of 2002 required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. The implementation of prospective budgeting is expected to reduce California's error rate and result in significant administrative savings.

The Department of Social Services has been working with stakeholders and the federal government to develop the new reporting system and obtain the necessary approvals to implement prospective budgeting. The Governor's Budget assumes that the new system will be implemented by September 2003.

**Governor's Budget:** The budget estimates that prospective budgeting will result in CalWORKs, Food Stamps and CFAP administration savings of \$75.2 million in the budget year.

Due to delays in the federal approval of the proposed new system, implementation of prospective budgeting/quarterly reporting has been delayed. Therefore, California will most likely not realize the total estimated administrative savings in the budget year.

Counties believe that the budget overestimates the administrative savings of implementing prospective budgeting. They argue that the budget does not consider the number of clients that will be required to report changes in circumstances during the quarter and the staff workload associated with these reports. Counties note that the budget does not provide resources to train staff and clients. The County Welfare Directors Association expresses concerns that reductions in administrative savings will undermine the effectiveness of implementing quarterly status reports.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the status of development and implementation of the new prospective budgeting system.
  2. Briefly discuss the impact of implementing prospective budgeting on state and county workload.
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**(4) Employment Services**

**Background:** California provides counties a single allocation grant to fund CalWORKs Stage 1 childcare, employment services, and program administration. These single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the level of funding necessary to fully fund their CalWORKs program. The allocations were adjusted to reflect actual costs in 1998-99 and 1999-00. California has maintained counties at their 2000-01 level in subsequent years.

Counties that chose to implement their CalWORKs program's incrementally have been negatively affected by the state's single allocation freeze. Their single allocation is based on their 1999-00 costs, not the actual cost of operating their program at full implementation. These counties tend to have less resources to operate their CalWORKs programs.

State and federal laws require counties to complete specified administrative functions, including determining eligibility and issuing checks, within specified timelines. Counties are given greater flexibility in the provision of employment services. As a result, counties tend to expend their funds on mandated activities first and have more limited resources to fund employment services.

The Budget Act of 2002 provided a one-time \$128 million increase to the single allocation to equalize program funding across counties and to support the provision of employment services. This funding augmented available county resources for employment services functions. However, the increase was partially offset by current year and budget year CalWORKs administrative funding reductions.

**Governor's Budget:** The budget provides a single allocation increase of \$241.5 million to fund county delivered employment services.

**Subcommittee Concerns and Questions:** The Subcommittee has requested the Department of Social Services to briefly discuss the proposed single allocation increase and the rationale for this proposal.

**(5) Realignment of CalWORKs employment services and administration**

**Background:** The CalWORKs program provides eligible low-income families monthly cash benefits and a range of services designed to support employment and assist families in moving to self-sufficiency within time limits imposed by federal and state law. CalWORKs requires participants to meet work participation requirements as a condition of receiving aid and sets a 60-month lifetime limit on aid for adults in the program, unless they meet specified exemption criteria.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. Counties are provided a block grant and given substantial flexibility to design and carry out the program within the state and federal

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program guidelines. Counties develop employment preparation and family support programs that reflect local conditions, including labor market information and availability of services for low-income families. County staff determine eligibility for the program, provide case management to recipients, including the development of welfare-to-work plans and referrals for services such as mental health and substance abuse treatment, domestic violence services, learning disability screenings, training, child care, housing assistance, and transportation. While state law establishes eligibility requirements, counties are given considerable flexibility to design welfare-to-work services.

The CalWORKs program is in its sixth year of operation and enjoys a relatively stable caseload. The program has successfully transitioned 46 percent of its 1994-95 AFDC caseload off public assistance. CalWORKs is now focusing efforts on serving parents with multiple barriers to employment and adapting to a growing proportion of child only cases. CalWORKs also faces the prospect of TANF reauthorization and possible federal law changes that may increase work participation requirements.

Since the early 1990s counties have funded 2.5 percent of CalWORKs (previously AFDC) grant costs. Federal and state funds have historically financed 97.5 percent of grants and all costs for program services.

**Governor's Budget:** The budget **proposes to realign CalWORKs administration, CalWORKs employment services and Stages 2 and 3 of childcare for general fund savings of \$881 million.**

The budget proposes that counties fund Stages 2 and 3 of childcare and for 50 percent of the cost for CalWORKs employment services and administration. The budget estimates expenditures for CalWORKs administration and employment services to remain at their current level in the budget year. Counties estimate that the CalWORKs program is currently under funded by \$297 million.

The Legislative Analyst's review of the Governor's proposed realignment concluded that CalWORKs is a good candidate for realignment as its caseload is relatively stable and counties already enjoy a substantial amount of program control. The Analyst recommends that the Legislature consider realigning a higher share of CalWORKs grant costs along with employment services, childcare and administration.

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**Subcommittee requests and questions:** The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment and discuss factors such as caseload and programmatic issues that may affect the need for future expenditure increases.
2. How will program operations change at the state and county level due to realignment?
3. What would the role of the state be in the context of realignment?
4. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

The Subcommittee has requested that the Legislative Analyst discuss their analysis of the proposed program realignment and their recommendation that the Legislature consider realigning a higher share of CalWORKs grant costs along with employment services, childcare and administration

**D. CalWORKs Funding Structure and Maintenance-of-Effort Requirements**

**Background:** The CalWORKs program is funded through a federal TANF block grant which amount to \$3.7 billion and federally required state matching funds. In addition to funding the CalWORKs program, California funds the KinGAP program, childcare programs and other programs that serve low-income families and youth with TANF funds. TANF funds also support county probation facilities, community colleges and teenage pregnancy prevention efforts.

The federal government requires, as a condition of receiving TANF funds, that state funding to assist needy families be at least 75 percent of the state's federal fiscal year (FFY) 1994 expenditures level. The required level of spending increases to 80 percent if the State fails to comply with federal work participation requirements. California is federally required maintenance of effort is \$2.9 billion.

California meets its federal MOE requirement primarily through state and county spending on the CalWORKs program. Thirteen million in state spending for other DSS programs and \$377 million in state funding for other departments is also used to satisfy the MOE requirement. Since 1998, California has maintained MOE spending at the federal minimum.

The full implementation of the CalWORKs program, increased demand for services as a result of the placement of CalWORKs participants in employment, and caseload growth in TANF funded programs, such as KinGAP, have increased pressure within TANF/MOE funding. To keep program funding at the minimum MOE level the state has maintained counties at their 2000-01 funding levels and delayed or suspended CalWORKs cost of living adjustments.

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Federal TANF Reauthorization may increase the pressure within TANF/MOE funding. Congress is currently considering a series of TANF Reauthorization proposals that would increase work participation requirements, reduce the number of allowable work activities and establish special programs to encourage family building. Congress may also reduce the amount of TANF block grant funds available to states. These proposals would limit California's ability to continue funding CalWORKs within the TANF/minimum MOE funding.

**Governor's Budget:** The budget maintains state spending to meet the TANF MOE at the federal minimum.

The Governor's Budget also proposes to spend all but \$200 million of available federal TANF funds in 2003-04, including the projected carry-over of unexpended funds (\$262 million) from 2002-03. The \$200 million will be held in a reserve for unanticipated future program needs. Any net augmentation to the CalWORKs program above the reserve amount would result in additional GF costs above the MOE requirement.

The table below illustrates how the MOE is met with State/County funds in the 2003-2004 Governor's budget.

<b>CalWORKs Maintenance of Effort (MOE) Expenditures 2003-2004 (In Thousands)</b>	
CDSS local assistance expenditures for CalWORKs	1,558,828
CDSS state support expenditures	2,766
Other countable CDSS TANF MOE expenditures	1,849
Other department TANF MOE expenditures	62,724
County CalWORKs expenditures *	1,044,510
<b>TOTAL MOE Spending</b>	<b>2,670,677</b>
* Includes \$315 million in proposed child care expenditures realigned to counties.	

**Subcommittee requests and questions:** The Subcommittee has requested the Department of Social Services to discuss the status of CalWORKs funding, factors affecting TANF/MOE spending and the state's continued ability to fund the existing CalWORKs program and maintain spending at the federal MOE minimum.

## **II. Supplemental Security Income/State Supplementary Payment (SSI/SSP)**

**General Background:** The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of costs, for the In-Home Supportive Services Program and may be eligible for other programs designed to keep individuals living in the community like the Multipurpose Senior Services Program.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. The state establishes the level of State Supplementary Payment support for individuals and contributes the funds for this portion of the program.

More than 1.1 million Californians receive SSI/SSP. Over two-thirds of recipients are disabled, 30 percent are elderly, and two percent are blind.

**Caseload**

The budget estimates that program caseload will grow by 2.2 percent in the 2002-2003 fiscal year and by 1.9 percent in the 2003-2004 fiscal year. The total caseload for 2003-2004 is estimated to be 1,148,176 (1,133,789 if the grant reduction proposal goes through). This level of caseload growth has been fairly consistent since 1998-99, after a reduction in caseload growth associated with the removal of some non-citizens, some disabled children and persons with substance-abusing disabilities from eligibility by federal welfare reform changes. The caseload of disabled individuals will grow faster in the budget (2.4%) than the caseload for aged (1.1%) or blind (0.1%), a consistent trend over the recent past. Due to changing demographics and a projected increase in California's aging population, the SSI/SSP program caseload is likely to continue its growth in future years.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. Currently there are 19 different SSI/SSP payment standards. These standards are generally adjusted each calendar year. The current maximum grant for an aged or disabled individual living independently is \$757 per month. It is \$1344 for couples living independently.

**Governor's Budget:** The budget **proposes (1) to suspend cost of living adjustments for SSI/SSP grants for the current and budget years and (2) to reduce SSI/SSP grants to the federal maintenance of effort level.** The budget assumes \$1 billion in savings as a result of these proposals.

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The following chart illustrates the effect of the Governor's proposals on SSI/SSP grants.

		January 2003	June 2003	July 2003	January 2004
SSI/SSP Grants—Individuals					
Current Law					
	SSI	\$552	\$552	\$552	\$566
	SSP	<u>\$205</u>	<u>\$226</u>	<u>\$226</u>	<u>\$239</u>
	Total	\$757	\$778	\$778	\$805
Governor's Budget					
	SSI	\$552	\$552	\$552	\$566
	SSP	<u>\$205</u>	<u>\$205</u>	<u>\$156</u>	<u>\$156</u>
	Total	\$757	\$757	\$708	\$722
Change From Current Law					
	SSI	\$0	\$0	\$0	\$0
	SSP	<u>\$0</u>	<u>\$21</u>	<u>\$70</u>	<u>\$83</u>
	Total	\$0	\$21	\$70	\$83
Change from Current Grant					
	SSI			\$0	\$14
	SSP			<u>-\$49</u>	<u>-\$49</u>
	Total			<u>-\$49</u>	<u>-\$35</u>

**(1) Suspension of state SSI/SSP cost of living adjustment**

**Background:** Current law provides an annual state cost of living adjustment for SSI/SSP grants, which is based on the California Necessities Index. The scheduled cost of living adjustments will increase the maximum SSI/SSP grant for an individual from \$757 to \$805.

**Governor's Budget:** The Budget suspends the 2002-2003 and 2003-2004 cost of living adjustments for the SSI/SSP program to realize savings of \$363.2 million. The budget proposes to continue pass-through of the federal SSI COLA.

Suspension of the state cost-of-living adjustment will maintain grants at a level that does not keep pace with cost-of-living increases such as rising housing costs.

**(2) Reduction of SSI/SSP grants to the federally required maintenance of effort level**

**Background:** California provides cash assistance to 1.1 million aged, blind or disabled individuals through the SSI/SSP program. Grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. The current maximum grant for an aged or disabled individual living independently is \$757 per month. It is \$1344 for couples living independently.

**Governor's budget:** The budget proposes to reduce cash assistance payments to low-income elderly, blind or disabled individuals to the federal maintenance of effort. It reduces SSI/SSP grants for aged or disabled individuals by \$49 per month and reduces their income from 101.2 percent to 94.6 of the federal poverty level.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a studio apartment in California average \$555 per month and range from \$332 in Alpine to \$1250 in Santa Clara, \$638 in Los Angeles, \$507 in Riverside, \$855 in Orange and \$766 in San Diego. Since 1990 rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 18 percent.

The budget reduces the grants for aged or disabled individuals by \$49 per month and for couples by \$119 per month. It will reduce the income of SSI/SSP recipients from 101.2 percent to 94.6 of the federal poverty level. It will also make approximately 14,500 individuals ineligible for the SSI/SSP program.

The 14,500 individuals who become ineligible for SSI/SSP as a result of the grant reduction will lose their categorical eligibility for free Medi-Cal benefits and for the In-Home Supportive Services Program. They may be required to pay a share-of-cost each month to continue receiving services. The required share-of cost payment is based on the amount by which that individual's income or assets exceed the applicable Medi-Cal limits. The required share-of-cost payment may be significant for people on fixed, low-incomes. Individuals who lose their health care benefits as a result of the grant reductions may be at risk of institutionalization at a significantly higher cost to the state.

The Governor cites the state's fiscal crisis as the reason why he is proposing to reduce SSI/SSP grants and suspend cost of living adjustments for the current year and the budget year. The Governor notes that California's SSI/SSP grants are higher than grants in the other ten most populous states.

Opponents of the proposed SSI/SSP grant reductions argue that the reductions will disproportionately affect the most vulnerable members of society. They further argue grant reductions will force SSI/SSP beneficiaries to choose between rent and food. Opponents assert that grant reductions will increase the risk of homelessness and institutionalization for disabled and aged individuals.

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**Subcommittee request and questions:** The Subcommittee has asked the Department of Social Services to answer the following questions:

1. Briefly describe your proposals.
2. How will the COLA suspensions and grant reductions affect low-income aged, blind and disabled individuals? How will they affect their ability to live independently?
3. How many individuals will be made ineligible for SSI/SSP as a result of the proposed grant reduction?
4. What will be the effect of becoming ineligible for SSI/SSP for these individuals?
5. How many of these individuals will be at risk of institutionalization as a result of these reductions?

### **III. Cash Assistance Program for Immigrants**

**Background:** The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services and administered locally by counties. CAPI serves approximately 11,000 individuals each year. Its caseload is relatively stable and is expected to decline over time.

CAPI grant levels are statutorily established at 10 dollars less than the applicable SSI/SSP monthly grant. Given the link of CAPI grants to SSI/SSP grant levels, the proposed reduction of SSI/SSP grants will result in a comparable reduction of CAPI grants

**Governor's Budget:** The budget reduces the maximum CAPI grant for an individual living independently by 6.5 percent to \$698 per month. This reduction will generate savings of \$5.6 million general fund.

**Subcommittee requests and questions:** The Subcommittee has requested that the Department of Social Services discuss the impact of the proposed grant reduction on low-income aged, blind and disabled immigrants and its effect on their ability to live independently.

**Governor's Budget:** Additionally, the budget proposes to realign the CAPI program to counties and assumes \$95.3 million as a result of the proposed realignment. The budget proposes to grant counties total flexibility in administering the CAPI program, including flexibility to eliminate the program.

The Legislative Analyst's review of the proposed realignment concludes that CAPI is not appropriate for realignment, as it is a statewide program that benefits from uniform payment standards and consistent eligibility criteria.

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**Subcommittee requests and questions:** The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment.
2. How would program operations change at the state and county level as a result of realignment?
3. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties? What will be the programmatic effect of granting this flexibility?

The Subcommittee has requested that the Legislative Analyst discuss their analysis of the proposed realignment.

#### **IV. Cash Benefits for Veterans**

**Background:** Assembly Bill 1978 (Cedillo), Chapter 143, Statutes of 2000, established a state funded cash benefit for Filipino veterans of World War II who were receiving SSP benefits on December of 1999 and who have returned to the Republic of the Philippines. The veterans receive a payment equivalent to California's State Supplemental Payment. The program serves approximately 1,700 veterans on an annual basis.

The proposed SSI/SSP grant reduction will reduce the cash benefit received by these individuals by 8% to \$570 per month (\$414 federal benefits and \$156 SSP).

**Subcommittee request and questions:** The Subcommittee has requested that the Department of Social Services discuss the effect of the proposed grant reduction on the veterans served by the Cash Benefits for Veterans program.

#### **V. In-Home Supportive Services (IHSS)**

**Background:** The In-Home Supportive services (IHSS) program provides services to aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Services include domestic services (meal preparation, laundry), nonmedical personal care services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. 76.6 percent of the persons receiving IHSS are provided federally reimbursable services through the Personal Care Services Program, a Medicaid option implemented in California since 1993. The remaining are served through the State's IHSS Residual Program.

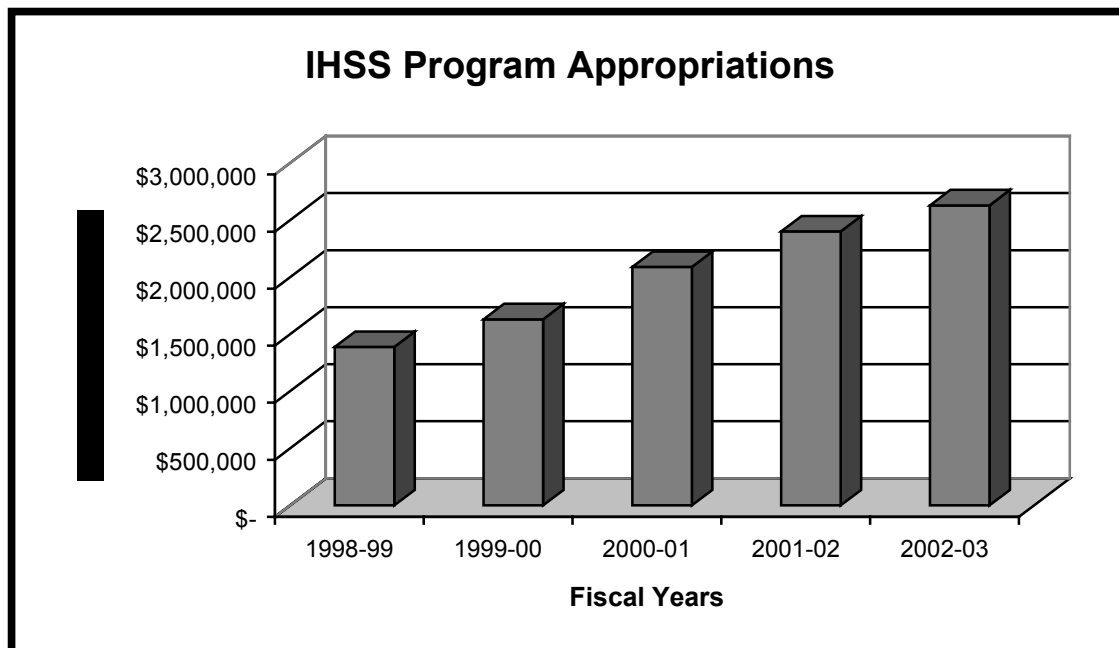
The IHSS Residual program serves clients when the only services required are domestic chores or protective supervision tasks. It also serves persons who are not Medicaid eligible, including recipients covered by third party insurance. Lastly, the Residual program funds services in cases where the recipient is severely disabled and receives

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payment in advance of service delivery; and services provided by relatives, spouses and parents to their own minor children.

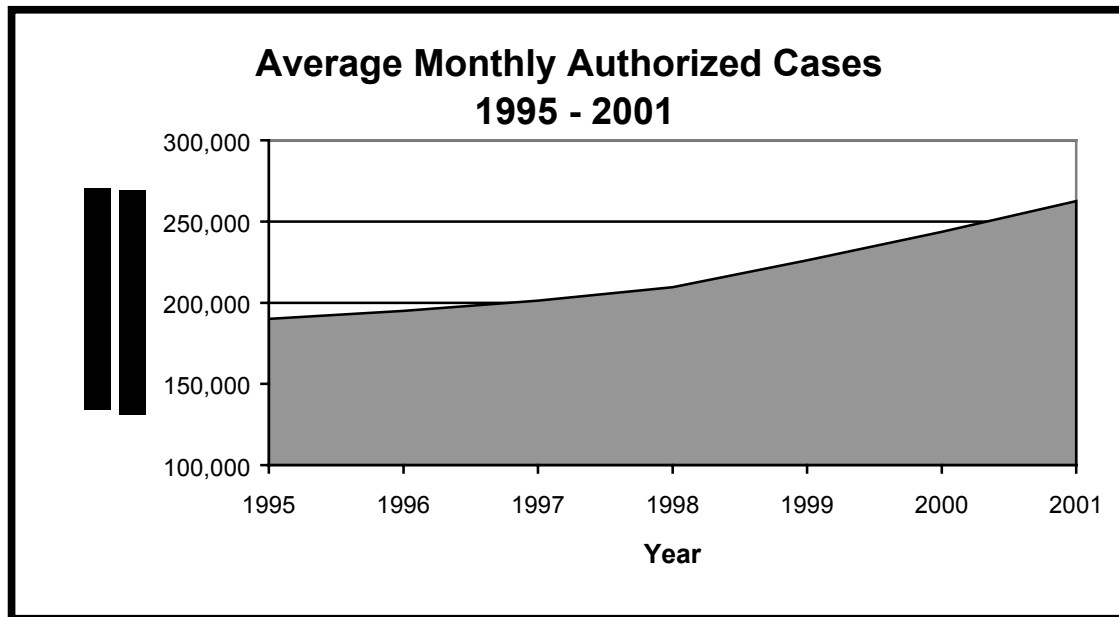
The IHSS caseload has grown faster than population growth. Caseload is estimated to grow by 8.5 percent in the current year and by 7.8 percent in the budget year. This caseload growth has been fueled by the aging of California and a clinical and programmatic shift to support elderly persons and persons with disabilities in community settings. As a result of increased caseload and increased provider rates, General Fund costs in this program have increased dramatically. Regardless, costs per individual (less than \$7,000) are less than one-fifth the costs of nursing home placement.

The total cost of the IHSS program has nearly doubled from \$1.39 billion appropriated in fiscal year 1998-99 to \$2.63 billion appropriated in 2002-03. In 2003-2004, the total IHSS program budget will be \$3.2 billion (\$15.8 million General Fund) compared to \$2.8 billion (\$1.1 billion General Fund) in 2002-2003. The budget reflects a 14 percent increase in one year.



The IHSS program's rate of growth has been fueled by increases in caseload and higher provider rates. Demographic trends have increased and will continue to increase the number of eligibles.

Wage increases have also contributed to caseload growth as higher wages have made it easier for beneficiaries to hire providers and fully utilize the program. IHSS cases increased 38 percent from 1995 to 2001. This rapid growth is expected to continue in the future, given demographic and utilization trends. Caseload is estimated to average 320,622 per month in the budget year, an increase of 7.8 percent over the current year.



Effective January 2003, the state requires that counties act as or select an employer of record for IHSS providers. A total of 53 counties have established public authorities to meet the employer of record mandate and collectively bargain with IHSS workers. An additional county will establish a public authority by the end of the budget year. The budget assumes that providers working for a Public Authority will serve over 90 percent of the caseload in the budget year.

**Governor's Budget:** The budget proposes (1) to suspend the state's participation in IHSS wage increases for the budget year and (2) proposes to realign the IHSS program to counties.

### **1. Suspension of IHSS Wage trigger**

**Background:** Current state law provides that the state share in provider rate increases above the state minimum wage in Public Authority and non-profit consortium counties. The state participates in provider wages up to \$9.50 and individual health benefits up to \$0.60 per hour. For subsequent years, the law requires that the state participate in total wages and individual health benefits up to \$12.10 per hour, not to exceed \$1.00 per hour increase in any fiscal year, when general fund revenues meet specified targets.

**Governor's Budget:** The budget proposes to suspend the state's participation in IHSS wage increases for the budget year.

Under state law, California would be required to participate in IHSS wage increases if general fund growth exceeds five percent of the 2002-03 general fund revenues. The state will most likely not reach this level of general fund growth in the budget year.

**2. Proposed realignment of the IHSS program.**

**Governor's budget:** The budget proposes to realign the In-Home Supportive Services Program to counties and requires counties to fund 100 percent of non-federal program costs.

Prior to the first realignment, IHSS was principally funded through state sources with minor federal block grant funding. Counties bore approximately two percent of the total cost. In 1991, counties became responsible for 35 percent of the non-federal cost. The 1993 creation of the Personal Care Services Program (PCSP) brought in federal funding for this program totaling \$1.2 billion in fiscal year 2002-03. The budget calls for counties to fund 100 percent of the non-federal cost of this program.

**Subcommittee requests and questions:** The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment of the IHSS program.
  2. Discuss factors such as caseload growth and outstanding programmatic issues that may affect the need for future increases in program expenditures.
  3. How would program operations change at the state and county level as a result of realignment?
  4. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties?
  5. What would the role of the state be in the context of realignment?
  6. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?
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